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FBI PLEASE PASS TO FBI DEPUTY DIRECTOR JOHN S. PISTOLE

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SUBJECT: SCENESETTER FOR FBI DEPUTY DIRECTOR JOHN S.
PISTOLE'S VISIT TO MALAYSIA

Classified By: Ambassador James R. Keith for reasons 1.4 b and d.

Introduction and Summary

11. (C) The Embassy warmly welcomes you to Malaysia! Your visit comes at an opportune time as the Embassy is ramping up engagement on law enforcement and rule of law priorities. Clearly, you will also travel at a moment of serious concern in the U.S. and Asia about the threat of global recession, a shadow that falls over the entire relationship. Nevertheless, Malaysia is an economically successful, relatively stable, Muslim-majority country, strategically located on the Strait of Malacca. The overall tone in U.S.-Malaysian relations is on the upswing as we face together security and economic challenges. We maintain good law enforcement, counterterrorism and defense relations, in addition to very robust economic ties. Politically and diplomatically, however, Malaysia has sought to distance itself from the U.S. and has been highly critical of U.S. actions in West Asia. The Malaysian government's use of the Internal Security Act (ISA) for political reasons and its ongoing criminal prosecution of opposition leader Anwar Ibrahim are the source of bilateral friction. A March 2008 election setback to Abdullah's governing coalition introduced more political competition and highlighted public calls for needed rule-of-law reforms and checks on executive power. The setback also set the stage for Deputy Prime Minister Najib's plans to replace Abdullah as Malaysia's leader in March 2009. How Malaysia fares with democratic and rule-of-law reforms will significantly affect our future bilateral relationship. End Introduction and Summary.

Political Landscape

12. (C) Malaysia has a parliamentary system of government that has been dominated since 1957 by the United Malays National Organization (UMNO) and its coalition partners. Traditionally, most political parties have been race-based. Ethnic Malays constitute 60% of Malaysia's population and have dominated Malaysian politics since independence, resulting in many race-based preferences in employment, education and government benefits. Malays are legally defined as Muslims, and the role of Islam in society and government has grown over past decades. The surprise gains by the opposition in the March 2008 election remade Malaysia's political landscape and shocked UMNO's National Front (BN) ruling coalition. A resurgent opposition increased its parliamentary representation four-fold and denied BN its two-thirds majority -- necessary to pass constitutional amendments -- for the first time in Malaysia's history. The March election also marked the political return

of former Deputy Prime Minister and current opposition leader Anwar Ibrahim, who threatened to unseat the Prime Minister through a vote of no-confidence, a move that has since stalled. The election shock set off a leadership struggle within UMNO. For many months, PM Abdullah fended off calls for his resignation, only to agree under pressure to step down in March 2009 when UMNO officially holds party elections. Although Deputy Prime Minister Najib is the uncontested heir-apparent, the fight for other senior UMNO positions is intense. As UMNO has turned inward and employed Malay chauvinist rhetoric, UMNO's relations with ethnic minority parties (Chinese, Indians), already weakened before the March election, have been further strained.

13. (C) Against the fluid domestic backdrop, Malaysians' reactions to the U.S. presidential election have been overwhelmingly positive, but with a strain of caution. Almost immediately, the Malaysian government indicated its willingness to engage in more political dialogue with the incoming U.S. administration. We anticipate that we will have new opportunities to pursue our priorities with Malaysia as the new administration sets its agenda in motion. In particular, the GOM has long been critical of U.S. Middle East policy, and will closely watch our approaches to Israel/Palestine, Iraq, and Iran.

Pressure for Reforms

14. (C) Growing domestic demand for better and more transparent governance and Abdullah's failure to institute meaningful rule-of-law reforms contributed to the

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government's March 2008 electoral setback. Since March, Abdullah announced planned policy reforms that he originally promised in 2004, to include a judicial appointments commission and a strengthened Anti-Corruption Agency (ACA). The original proposed reforms met with strong opposition from the ruling coalition elites and some cabinet members, leading to the resignation of the Minister in charge of legal reforms. The government is now proceeding with modified reform measures, which may not significantly weaken executive control of the judiciary or the Anti-Corruption Agency. There are recent examples of judges exercising increasing independence, but the executive retains important controls over the courts. With a leadership struggle in UMNO and a more prominent opposition, Malaysia is experiencing somewhat more press freedom, but the Government still exerts great influence over most media outlets, save for the internet. No significant institutional reforms yet underpin the current democratic openings and the state retains authoritarian levers from the Mahathir era (1982-2003), as demonstrated in the ISA arrests in September of two journalists and an opposition parliamentarian. Malaysia continues to wrestle with problems related to migrants and refugees due to porous borders and instability in Burma. The U.S. is actively pressing Malaysia to take positive action to combat trafficking in persons and protect refugees.

CT and Law Enforcement

15. (S) Beneath the turbulent power politics over the past year, we continue to benefit from close counterterrorism and law enforcement cooperation. Although it keeps the details closely held, the GOM has been an important partner on counterterrorism. Early round-ups in 2001-2002 of scores of Jemaah Islamiyah (JI) suspects helped ensure there have been no terrorist attacks here. However, Malaysian extremists, as illustrated by a series of arrests in Malaysia's Borneo states in 2006, still have the capability to support JI operations elsewhere. Two Malaysian citizens were among the 14 high value U.S. detainees transferred to Guantanamo in 2006; Malaysian access to the detainees is a sore point, but one that is being addressed. We continue to provide

capacity-building training and assistance to Malaysia's police and other agencies. We signed a Mutual Legal Assistance Treaty with Malaysia in 2006, and are in the final stages of ratification.

¶6. (C) Malaysia pursues almost exclusively an intelligence approach to counterterrorism through the Royal Malaysian Police Special Branch, which is largely autonomous from the rest of the police. Malaysia's law enforcement skills to investigate and prosecute terrorism cases, narcotics and other complex criminal conspiracies lag far behind. Authorities rely heavily on the ISA and other security laws to detain suspects, obviating the need for investigation, evidence collection and prosecution. Unlike its neighbors, Malaysia has not prosecuted any terrorist suspects since 9-11, though hundreds have been detained without trial under the ISA. Growing political pressure to do away with the ISA will pose a challenge to Malaysian law enforcement in the longer term. Greater regional CT cooperation between Malaysia and its neighbors is needed. The State Department's Regional Strategic Initiative (RSI) brings Malaysian policymakers together with their Indonesian and Philippines counterparts to identify common security interests and practical ways to advance them. Malaysia has cooperated with Thailand regarding the insurgency in southern Thailand, but acknowledges that the problem is foremost an internal Thai political challenge. Malaysia has also played a generally constructive role in trying to facilitate the peace process between the Philippine Government and the MILF in the southern islands.

Defense Relationship

¶7. (C) Military-to-military engagement has improved significantly over the last several years, as demonstrated by significant increases in U.S. Naval visits and professional exchanges. In 2008 there were 26 US Navy ship visits to Malaysian ports and 22 visits in 2007, up from only five ship visits in 2003. Inter-agency engagement has also increased with the newly formed Malaysian Maritime Enforcement Agency, which has broad maritime law enforcement, humanitarian, and security responsibilities similar to the U.S. Coast Guard.

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The Malaysian armed forces have prioritized security in the tri-border area shared with the Philippines and Indonesia. The U.S. is assisting with the provision of coastal radars and related systems, along with training, to strengthen maritime border security in this area of terrorist transit. Military engagement for counter terrorism is led by Special Operations Forces and focuses on ground close quarter combat training, and maritime non-compliant boarding. Special Operations Forces also participate in some counter narcotics training of Malaysian field force police and customs officers.

Malaysia's Economy

¶8. (SBU) Malaysia's economy is among the more open, diverse, and better-developed among Muslim-majority nations and in ASEAN. The United States is Malaysia's largest trading partner, and Malaysia is now the 16th largest trading partner for the United States after two-way bilateral trade dropped 12 percent in 2007 to \$46 billion. Particularly strong trading relationships remain in the electronics and energy sectors. We currently are engaged with the GOM in negotiations for a comprehensive bilateral Free Trade Agreement designed to increase market access, remove barriers to investment and improve protection for intellectual property rights. The outcome of these discussions, however, is uncertain as the Malaysian side has yet to obtain a full negotiating mandate from the cabinet to engage on core areas such as government procurement and financial services. Malaysia believes it has limited direct exposure to the U.S.

sub-prime market in part because of lessons learned from the 1997-8 Asian financial crisis, though it does expect the economic slowdown in the U.S. will dampen growth in Malaysia this year. While on a cumulative basis the U.S. remains Malaysia's top source of foreign direct investment, approved projects from several other countries surpassed those of the U.S. during the last several years. In the first half of 2008, approved projects from U.S. investors rank third, after Australia and Germany.

POINTS TO PRESS

19. (SBU) Your meetings with law enforcement counterparts represent an opportunity to:

-- Congratulate the Malaysians on their successful actions against Jemaah Islamiyah (JI) terrorists, and their prevention of any terrorist attacks in recent years.

-- Encourage and discuss prospects for the future law enforcement investigation of terrorists and their prosecution in the courts.

-- Continue to pursue increased CT cooperation and training opportunities.

-- Answer questions on the likely future of Guantanamo and disposition of detainees there.

KEITH